
Marlin Restatement Issues

What have you done to my Region
numbers?

51842 8530

Comments ...

- ◆ Changed goal in mid year
 - Nullified achievements January through April.
 - Not a year to date comparison versus 1996 similar to US goal tracking.
- ◆ May/June base seems unfair.
 - Only two months of information during a high promotional period.
- ◆ Why did my level change?

More Comments

- ◆ I believed the sample reflected the current business environment.
 - I trusted you.
- ◆ Now you say the environment changed when I woke up on May 1st.
 - I don't trust you Marlin is FLAWED.
- ◆ Aren't the business drivers the same?
 - Did they not have the same impact on the new sample?

Even More Comments

- ◆ I do not believe Marlin is reflective of my actual Region.
- ◆ I do not believe the auditors are recording the information correctly.
- ◆ Geography changes that occurred on SIS, were not reflected in Marlin data until restatement.

Goal Tracking

- ◆ Continue to track through year end with May/June time frame, as well as looking at performance vs year 1996.
- ◆ SIAP/AIAP pay outs are tied to Total US performance.
- ◆ We can not use 1996 as a base on a region level due to the stores in the sample. (Apples and Oranges)
- ◆ 1998 will use the 7 months after restatement as a base.

Why did my level change?

- ◆ Because
 - Continued business shifts require resampling to ensure accurate retail store universe representation.
 - Due to the change in importance between outlet types it can cause shifts between Full Price, Savings, and Brands which will change share levels.
 - New sample stores could have different share levels than stores that were dropped, might not be performance related.

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Was the old sample correct?

- ◆ In a perfect world the sample would be changed monthly to reflect subtle changes within a Region.
- ◆ We compensate by using SIS to adjust for these changes.
- ◆ Overtime business shifts need to be adjusted for by resampling.

Was the old sample correct?

- ◆ The sample was not incorrect just grew to be insufficient in some segment types.
- ◆ Due to the growing segments CG/CTS the sample needed more stores in these segments.
- ◆ It is actually better than before.
- ◆ It is a truer reflection of the marketplace.
- ◆ Marlin is not flawed, it is still a valuable diagnostic and share tracking tool.

Are the business drivers the same?

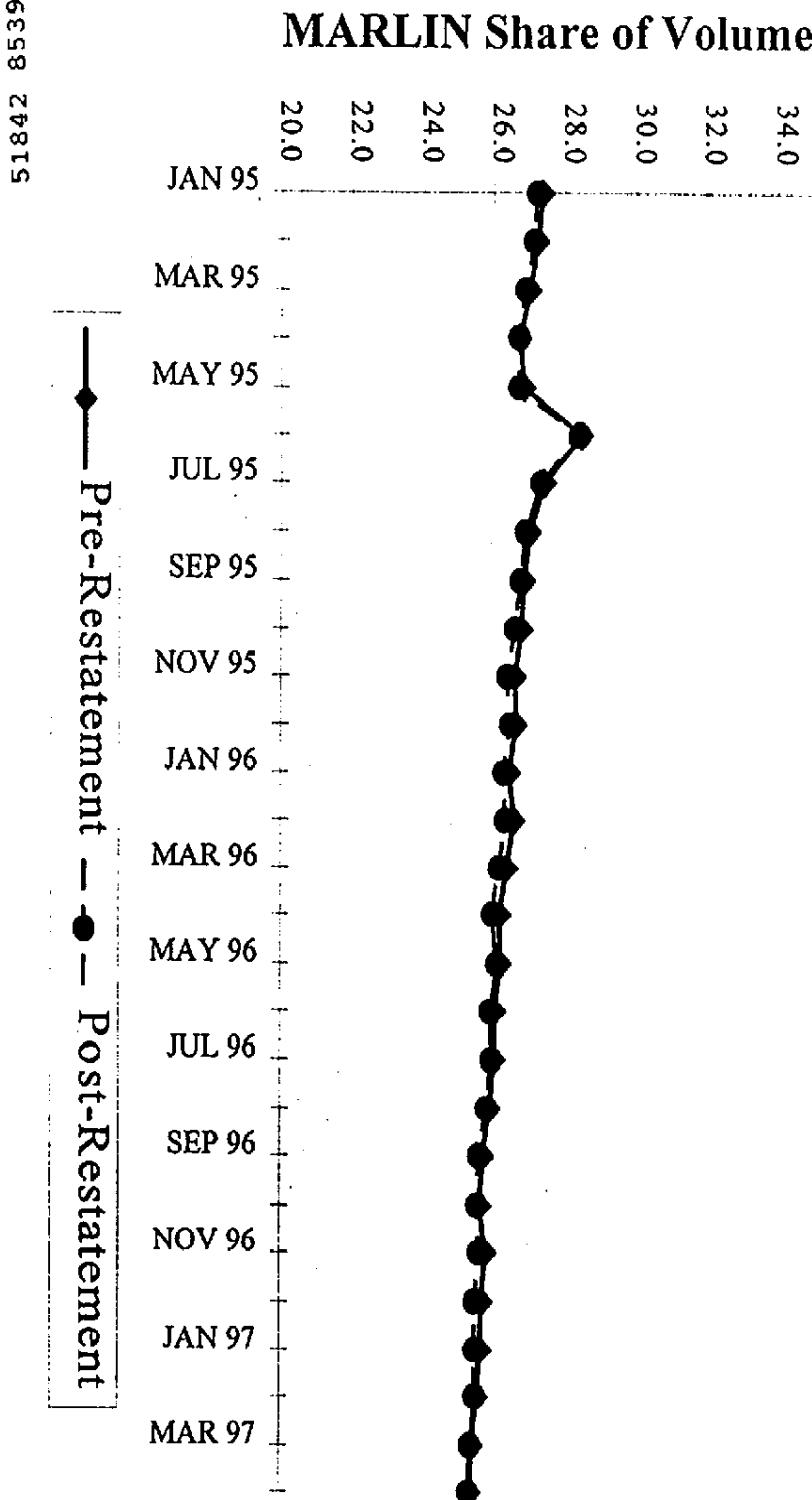
- ◆ YES
- ◆ While the share levels changed, the trends which are driven by the drivers, remained the same.
- ◆ As you drill down to the Region level or Brand level the SOM level changes can be more dramatic.
- ◆ Future trend changes are due to performance vs. sample changes.

Trends

Total.US

RJR

MARLIN Share of Volume

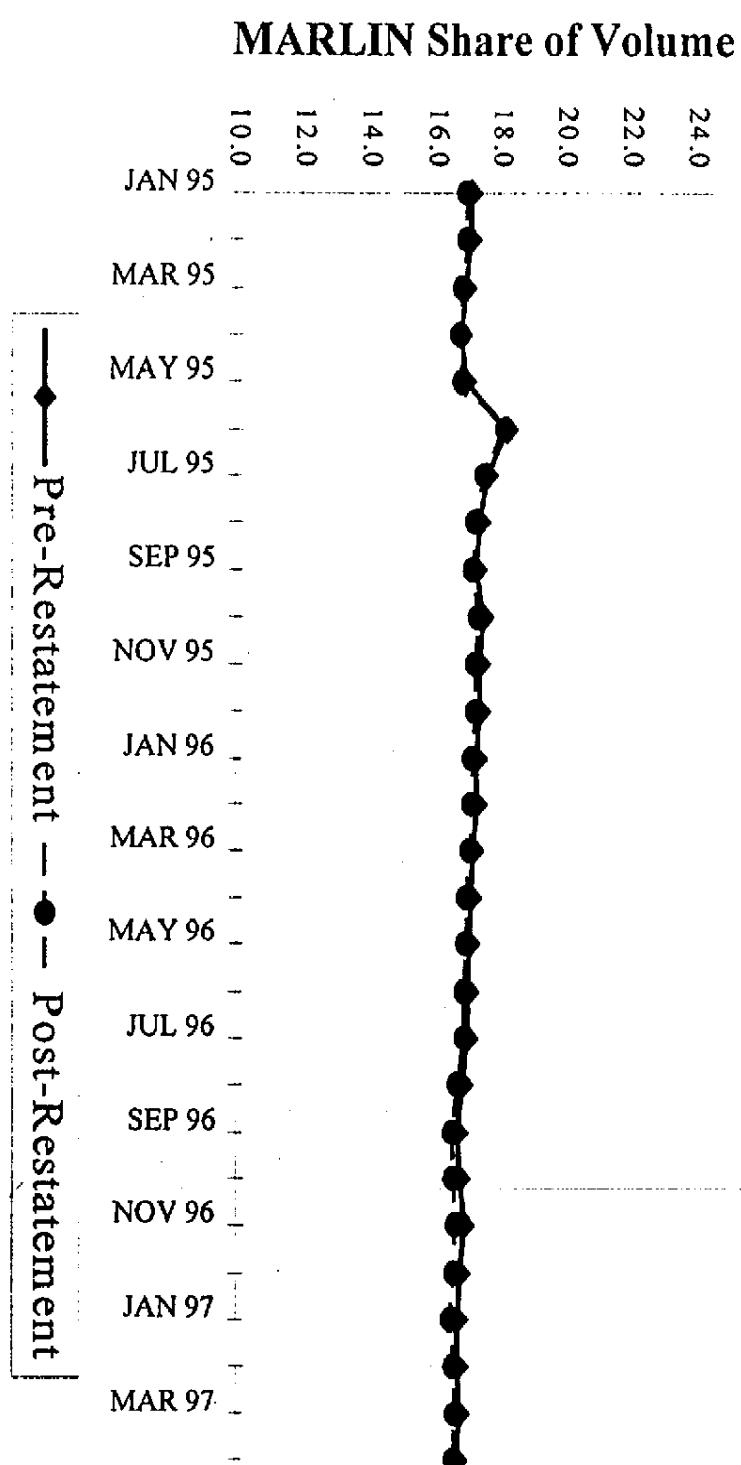


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Trends

Total.US

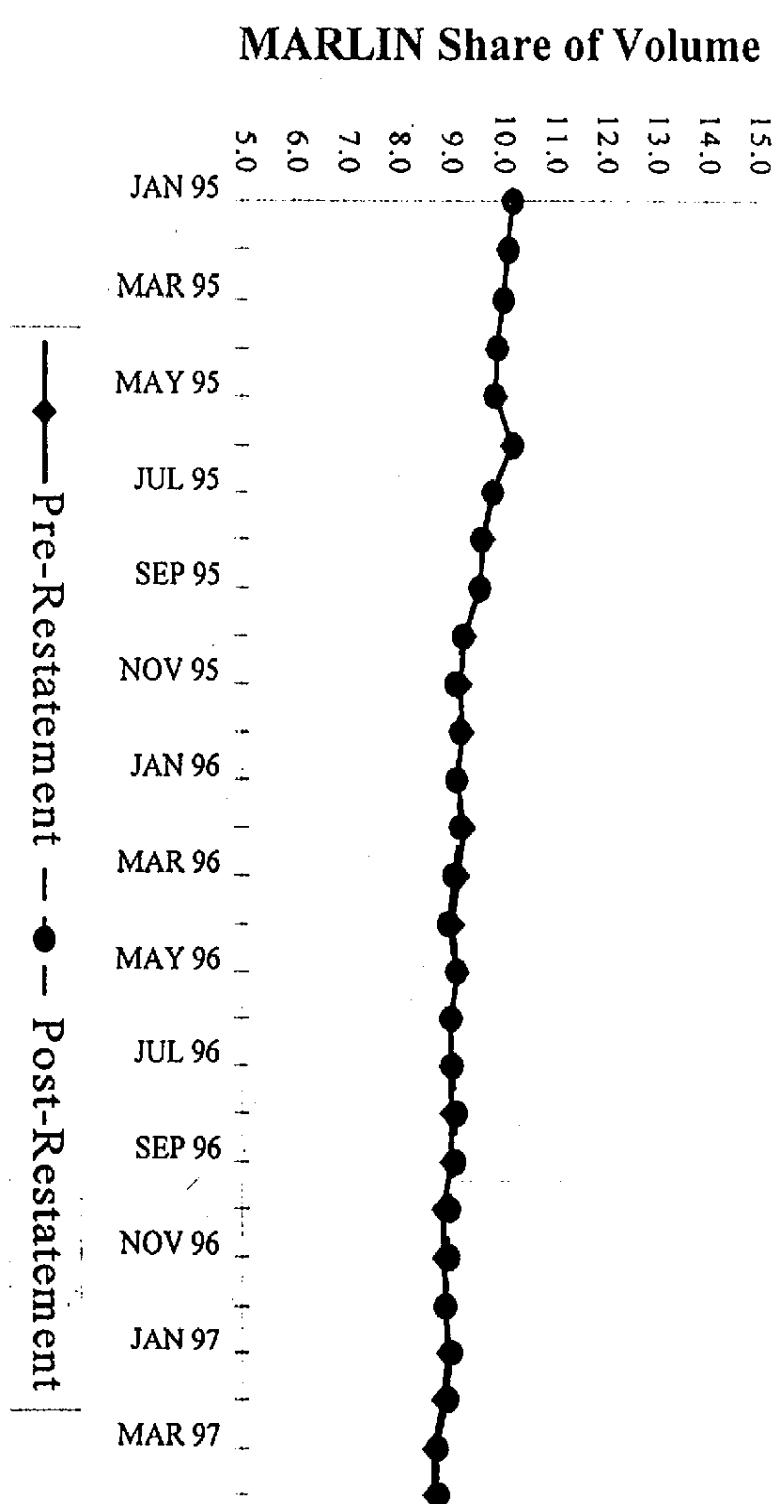
RJR FP



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Trends

Total.US
RJR SAV

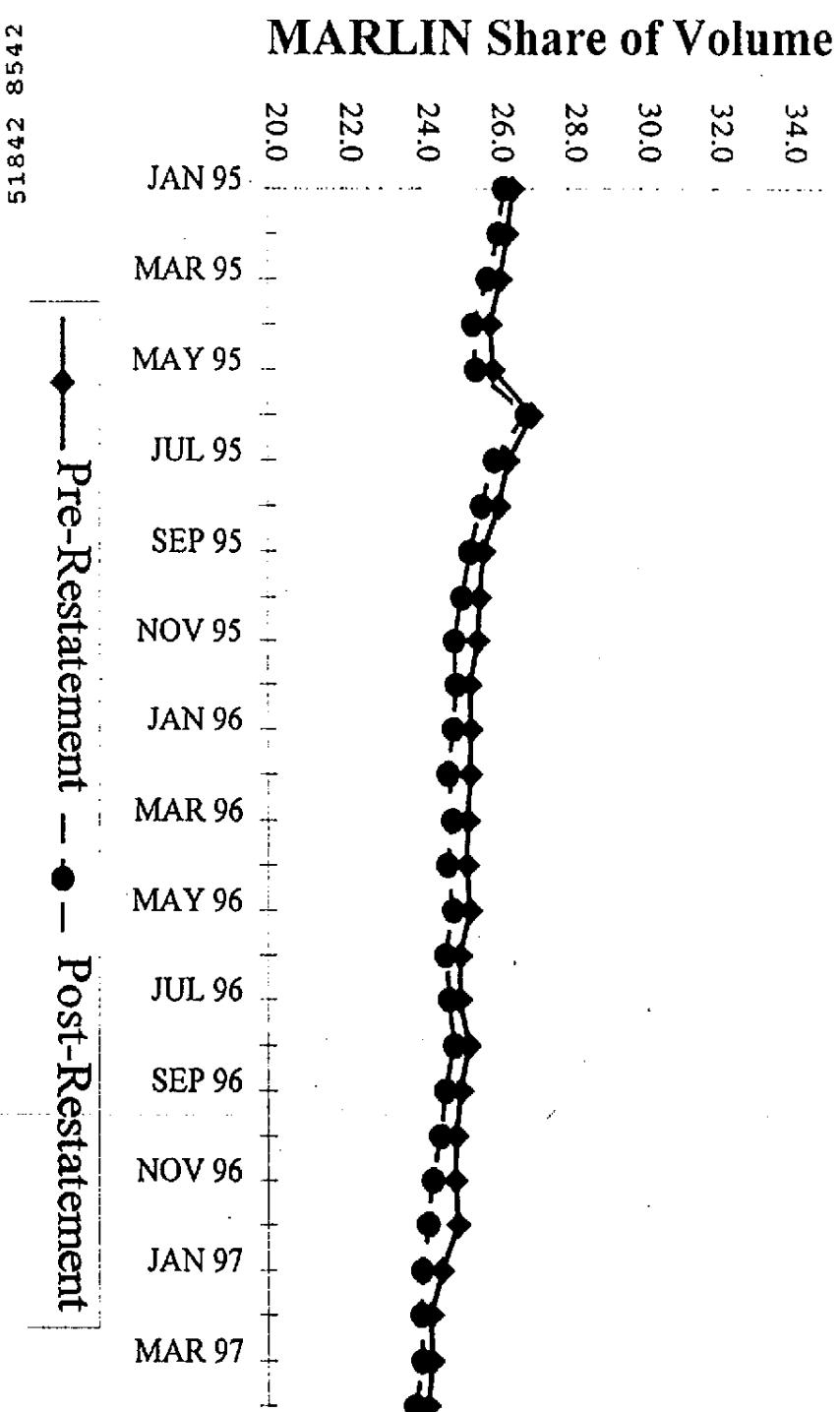


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Trends

Mid-West

RJR



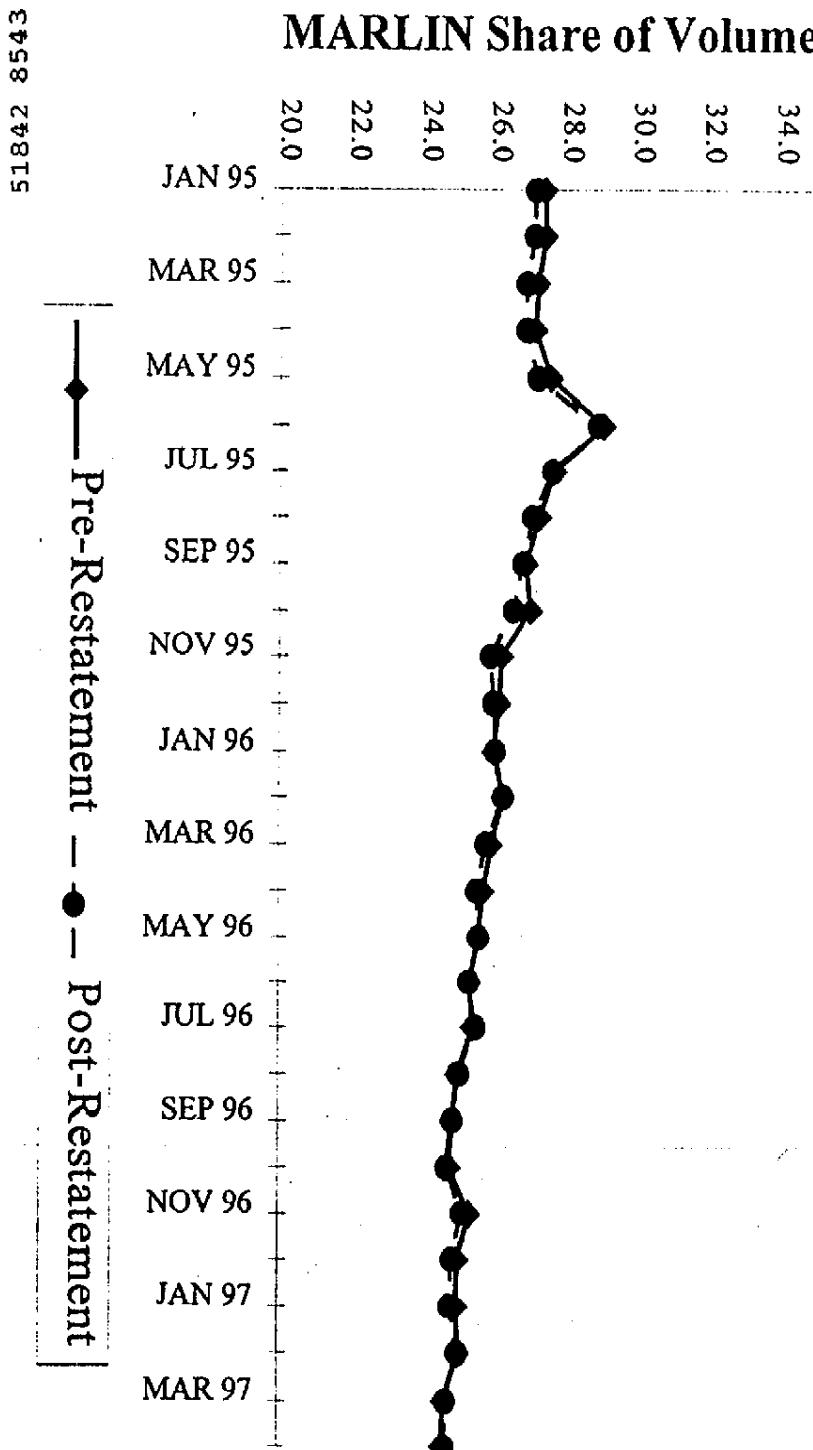
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Trends

Western

RJR

MARLIN Share of Volume



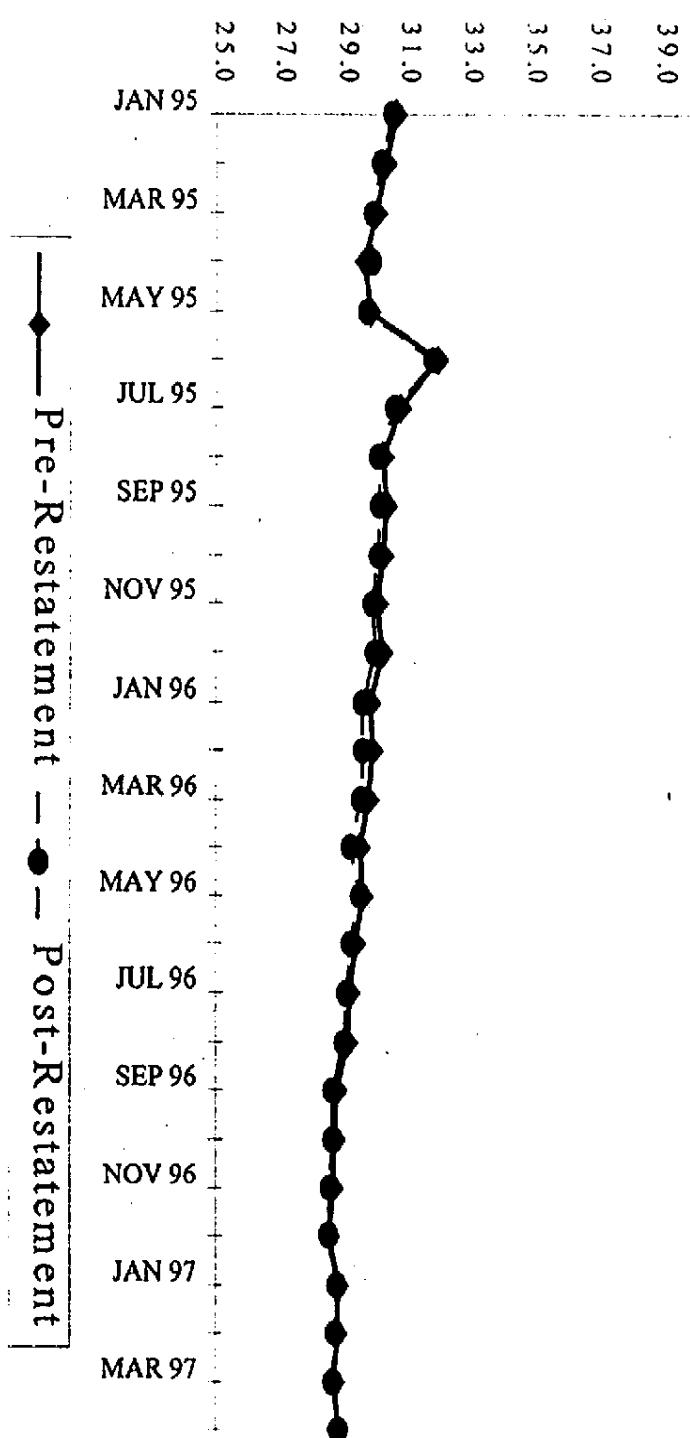
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Trends

Southern

RJR

MARLIN Share of Volume



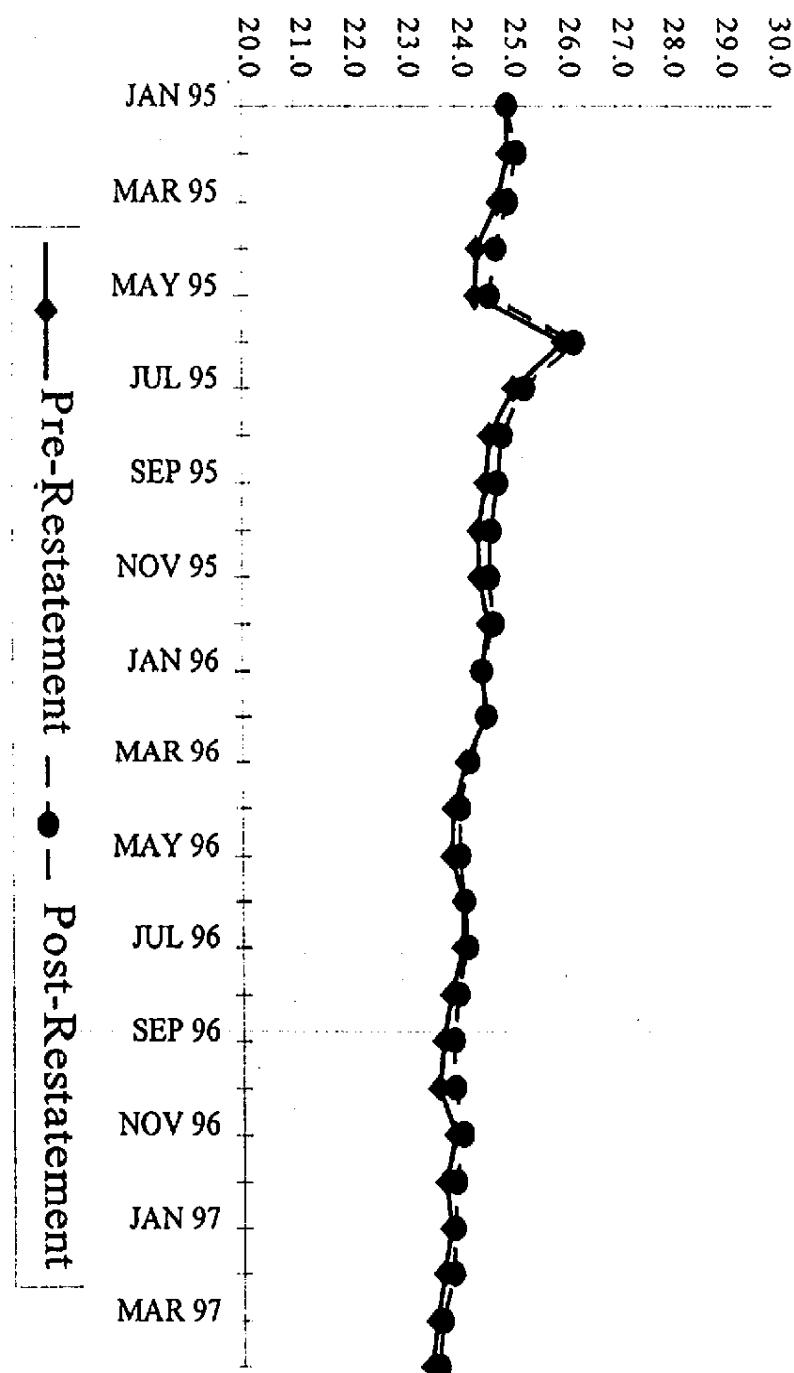
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Trends

Northeast

RJR

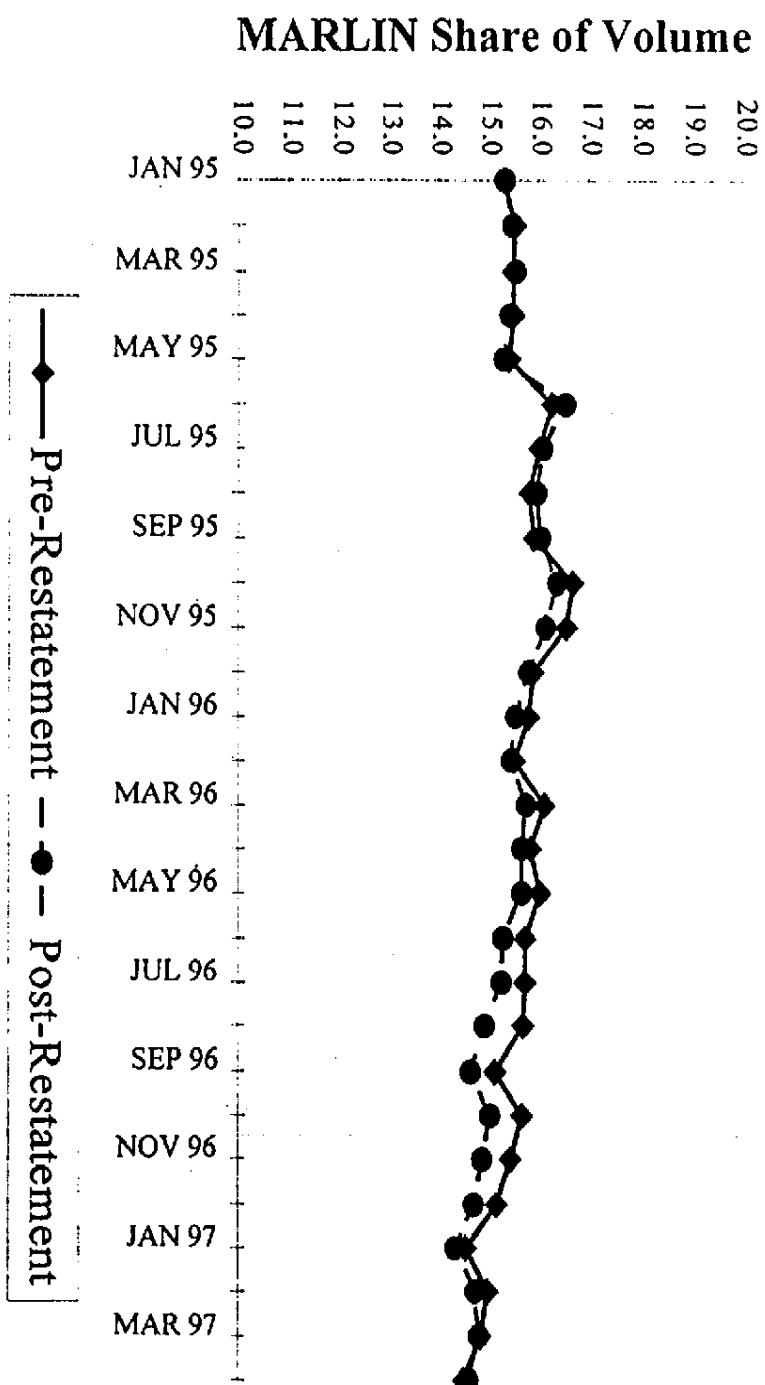
MARLIN Share of Volume



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Trends

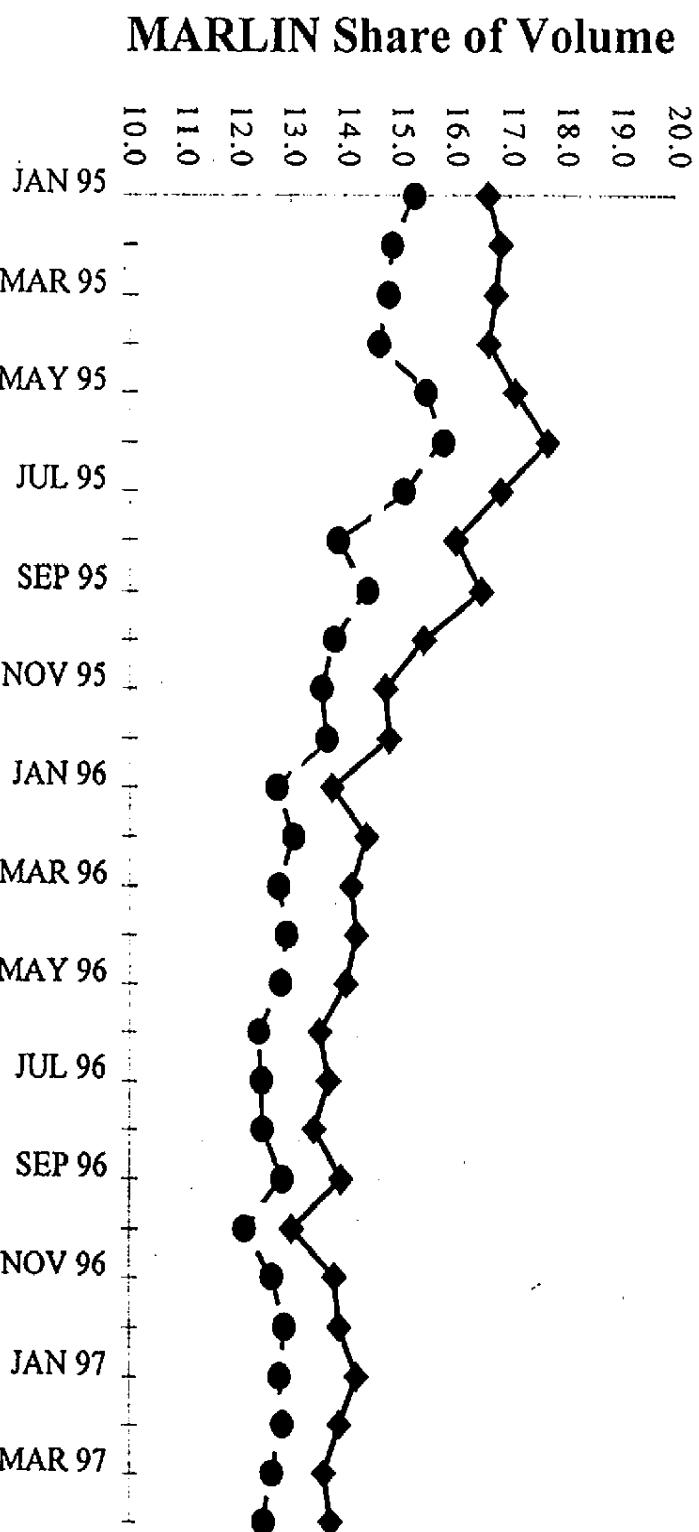
Houston Reg
RJR FP



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Trends

Houston Reg RJR SAV



—◆— Pre-Restatement —●— Post-Restatement

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Is Marlin reflective of my Region cont.?

- ◆ There are over 4,600 stores in the sample.
- ◆ The sample is representative of :
 - Class of trade
 - Chains vs. Independents
 - Average Carton Volume
 - County Type (Population)
 - Ethnic Population
 - Manufacturers contract (ie. PMX, RJRX)
- ◆ More Stores = More Money

Is Marlin reflective of my Region?

- ◆ Sample is built at the Regional level from SIS data.
- ◆ Region store quota is based on CIV
- ◆ Quota stores are then assigned based on volume importance, keeping in mind store count.
- ◆ A new class of trade is sampled within a Region:
 - When it is > 2.5% of CIV
 - Removed when < 1% of CIV

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Is Marlin reflective of my Region cont.?

- ◆ Volume cutoffs by market by outlet are established to remove low volume stores from the sample.
 - They do not remove more than the bottom 5% of volume, or 30% of the store count in any given COT.
 - This ensures small stores do not dominate the sampling list and distort results.
- ◆ Outlets are sampled proportionate to CIV with additional adjustments for store count.

Are the Auditors recording the information correctly?

- ◆ If the auditors do not see it the consumer won't.
- ◆ The auditors are T/A on a frequent basis.
- ◆ They are fired when they are wrong.

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Why aren't geography changes immediate?

- ◆ Geography changes require a total restatement because the sample is built from the outlet type up to US.
- ◆ Our contract only allows restatement once every 2 years.

Why did we restate?

- ◆ Geography changes
 - Region Realignments
 - County Locations
- ◆ Rebalance volume shifts by outlet type.
 - Importance of CTS/CG, increase number of CTS/CG sampled.
- ◆ Rebalance segment shifts between outlet types.
 - Stores switching segments.
- ◆ To maintain the integrity of Marlin as an analytical tool.
 - To better reflect the rapidly changing marketplace.

Moving Forward (Life after Restatement)

- ◆ We should be concentrating on interpreting the key business drivers from Marlin on a May forward basis.
 - Year ago comparisons are not indicative of current performance.
- ◆ Marlin is the best analytical tool available on the market today.
- ◆ Marlin is the only tool linking causal data to share performance.
 - Enabling us to quantify the impact of the key business drivers on our share.
- ◆ You will not be penalized for your share performance, by executive management, due to a sample change.